

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**

**FINANCIAL STATEMENTS**

**FEBRUARY 29, 2008**

# PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors

Parma - Sandstone Inter-municipal Police Department

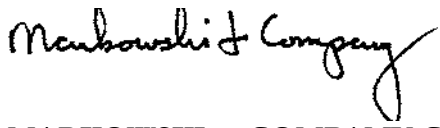
Parma, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund and aggregate remaining fund information of the **Parma - Sandstone Inter-municipal Police Department** (the Department) as of and for the year the ended February 29, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Parma - Sandstone Inter-municipal Police Department as of February 29, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on pages 18-19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Department has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of the financial statements.



**MARKOWSKI & COMPANY CPAs**

August 27, 2008

## **BASIC FINANCIAL STATEMENTS**

Government-Wide Financial Statements

Governmental Fund Financial Statements

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Statement of Net Assets

Statement of Activities

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
STATEMENT OF NET ASSETS  
FEBRUARY 29, 2008

	<b>Total Governmental Funds</b>
<b>ASSETS:</b>	
<b>Current Assets:</b>	
Cash	\$ 12,394
Due from other governments	11,725
Prepaid expenses	4,120
Total current assets	<u>28,239</u>
<b>Noncurrent Assets:</b>	
Capital assets, net of accumulated depreciation	<u>107,759</u>
Total assets	<u>135,998</u>
<b>LIABILITIES:</b>	
<b>Current Liabilities:</b>	
Accounts payable	37
Deferred revenue	1,725
Due to other governments	11,155
Total current liabilities	<u>12,917</u>
<b>Noncurrent Liabilities:</b>	
Accrued payroll	<u>20,723</u>
Total liabilities	<u>33,640</u>
<b>NET ASSETS:</b>	
Invested in capital assets	107,759
Unrestricted	<u>(5,401)</u>
Total net assets	<u><u>\$ 102,358</u></u>

The accompanying notes are an integral part of this statement.

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
STATEMENT OF ACTIVITIES  
THE YEAR ENDED FEBRUARY 29, 2008

Functions/Programs:	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Net (Expense) Revenue
Government activities:					
Public safety	\$ (205,075)	\$ 342	\$ 188,397	\$ -	\$ (16,336)
Total governmental activities	\$ (205,075)	\$ 342	\$ 188,397	\$ -	(16,336)
<b>General Revenues:</b>					
Interest and rents					2,153
Fines and forfeitures					6,282
Donations					2,500
Total general revenues					10,935
<b>Change in Net Assets</b>					(5,401)
<b>Net Assets - Beginning (Restated)</b>					107,759
<b>Net Assets - Ending</b>					\$ 102,358

The accompanying notes are an integral part of this statement.



## **GOVERNMENTAL FUND FINANCIAL STATEMENTS**

Governmental Funds Balance Sheet

Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Assets

Governmental Funds Statement of Revenues, Expenditures, and  
Changes in Fund Balances

Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures, and Changes in Fund Balances to the  
Statement of Activities

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
GOVERNMENTAL FUNDS BALANCE SHEET  
FEBRUARY 29, 2008

	Operating Fund	Restricted Police Fund	Total Governmental Funds
<b>ASSETS:</b>			
Cash	\$ -	\$ 12,394	\$ 12,394
Due from other governments	11,155	570	11,725
Total assets	<u>\$ 11,155</u>	<u>\$ 12,964</u>	<u>\$ 24,119</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ -	\$ 37	\$ 37
Deferred revenue	-	1,725	1,725
Due to other governments	11,155	-	11,155
Total liabilities	<u>11,155</u>	<u>1,762</u>	<u>12,917</u>
	-		-
<b>FUND BALANCE:</b>			
Unreserved	-	11,202	11,202
Total fund balance	<u>-</u>	<u>11,202</u>	<u>11,202</u>
Total liabilities and fund balance	<u>\$ 11,155</u>	<u>\$ 12,964</u>	<u>\$ 24,119</u>

The accompanying notes are an integral part of this statement.

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
FEBRUARY 29, 2008

Total fund balance - total governmental funds	\$ 11,202
Amounts reported for governmental activities in the statement of net assets are different because:	
The Department's insurance policy terms run from July 1, 2007 to June 30, 2008. For the statement of net assets, the unexpired premiums are reported as a prepaid expense.	4,120
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	
Add - Capital assets	173,719
Deduct - Accumulated depreciation	(65,960)
The Department's liability for unpaid sick, vacation, and compensatory time for its full time police officers is accrued as a liability for the statement of net assets.	<u>(20,723)</u>
Net assets of governmental activities	<u><u>\$ 102,358</u></u>

The notes to the financial statements are an integral part of this statement.

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
THE YEAR ENDED FEBRUARY 29, 2008

	Operating Fund	Restricted Police Fund	Total Governmental Funds
<b>REVENUES:</b>			
<b>Intergovernmental:</b>			
Government contributions	\$ 185,035	\$ -	\$ 185,035
Federal grants	3,146	-	3,146
State grants	-	216	216
Total intergovernmental	188,181	216	188,397
<b>Charges for services</b>	-	342	342
<b>Interest and rents</b>	-	2,153	2,153
<b>Fines and forfeitures</b>	-	6,282	6,282
<b>Donations</b>	-	2,500	2,500
Total revenues	188,181	11,493	199,674
<b>EXPENDITURES:</b>			
<b>Public Safety:</b>			
Officers wages	93,443	-	93,443
Clerical wages	15,437	-	15,437
Payroll taxes	8,324	-	8,324
Health insurance	30,880	-	30,880
Life insurance	849	-	849
Unemployment	1,620	-	1,620
Workers compensation insurance	1,864	-	1,864
Retirement	9,276	-	9,276
Office supplies	674	1,507	2,181
Uniforms	-	491	491
Operating supplies	434	-	434
Professional services	1,200	4,000	5,200
Radio maintenance	800	87	887
Auto maintenance	2,752	735	3,487
Gas and oil	7,411	-	7,411
Insurance	6,045	-	6,045
Phone, cellular, pager	2,867	45	2,912
Utilities	2,705	-	2,705

The accompanying notes are an integral part of this statement.

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES (Continued)  
THE YEAR ENDED FEBRUARY 29, 2008

	Operating Fund	Restricted Police Fund	Total Governmental Funds
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES:</b> Continued)			
<b>Public Safety:</b> (Continued)			
Repairs - Building	\$ -	\$ 25	\$ 25
Computer expense	924	345	1,269
Schooling	-	734	734
Training	-	561	561
Property taxes	676	-	676
Miscellaneous	-	364	364
Capital outlay	-	3,323	3,323
Total expenditures	<hr/> 188,181	<hr/> 12,217	<hr/> 200,398
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	(724)	(724)
<b>FUND BALANCE - Beginning</b>	<hr/> -	<hr/> 11,926	<hr/> 11,926
<b>FUND BALANCE - Ending</b>	<hr/> \$ -	<hr/> \$ 11,202	<hr/> \$ 11,202

The accompanying notes are an integral part of this statement.

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
THE YEAR ENDED FEBRUARY 29, 2008

Net change in fund balances - total governmental funds	\$	(724)
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Amounts reported for governmental activities in the statement of activities  
are different because:

The effect of reporting insurance premiums on the full accrual basis for the statement of net assets results in an adjustment to insurance expense reported in the statement of activities.		1,185
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Government funds report capital outlay as expenditures. However, in the government wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets purchased in the current period.		3,323
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Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.		(9,502)
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The accrual for sick, vacation and compensatory time is adjusted annually. This change in the liability is reported as an expense in the statement of activities.		<div style="border-top: 1px solid black;">317</div>
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Change in net assets of governmental activities	\$	<div style="border-bottom: 3px double black;">(5,401)</div>
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The notes to the financial statements are an integral part of this statement.

## **NOTES TO THE FINANCIAL STATEMENTS**

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**INDEX TO NOTES TO THE FINANCIAL STATEMENTS**

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**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Parma-Sandstone Inter-Municipal Police Department (the “Department”) conform to accounting principles generally accepted (GAAP) in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

**A. Reporting Entity:**

The Department was formed under the provisions of Act 33 of the Public Acts of 1951 and an agreement between Sandstone Charter Township, Parma Township, and the Village of Parma. The purpose of the agreement was to organize a police department with sufficient equipment and personnel to provide police protection to the residents of the two townships.

The Police Department is governed by a three member board. Each participating entity appoints one member.

The Department’s operations are supported by contributions from the participating entities. Operating expenditures are split 30% to Parma Village and 35% each to the townships. Capital acquisitions are split equally between the three entities.

In accordance with GAAP as established by the GASB, the Department is not a component unit of the participating entities and has no component units itself. The criteria used for this determination include oversight responsibility, scope of public services, and special relationships.

**B. Government-Wide and Fund Financial Statements:**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all activities of the Department, which are all classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental support and other items not properly included among program revenues are reported as general revenues.

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

**C. Measurement Focus/Basis of Accounting:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

**D. Financial Statement Presentation:**

The Department uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Department functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Department reports the following major funds:

General Fund – the General Fund is used to account for all financial resources except those the Board requires to be accounted for in a separate fund.

Restricted Police Fund – this fund accounts for the portion of penal fines received through the Jackson County court system, rent received from the tenant occupying a portion of the Department's building, and donations received. The Board allows the Department's chief greater discretion in determining how these funds are to be used, but they are still subject to state law and Board approval.

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

**E. Deposits:**

The Department has defined cash and cash equivalents as demand deposits (checking accounts), savings accounts, and short-term investments with an original maturity of 90 days or less when acquired.

Deposits are reported at cost.

**F. Capital Assets:**

Capital assets are defined as assets with an initial individual cost of \$1,000 or greater and an estimated useful life of more than one year. Capital assets are recorded at their cost or fair market value for donated assets. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives

The Department has established the following useful lives for its assets:

Building and improvements	10-40 years
Equipment	5-10 years
Office equipment	5 years
Vehicles	5 years

All capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental fund financial statements.

**G. Fund Equity:**

The unreserved fund balances for governmental funds represent the amount available for financing future operations.

**H. Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

Formal budgetary integration is employed as a management control device during the year for the General Fund. The budget was adopted on a modified accrual basis. The budget can be amended by a majority vote of the Police Board, subject to the approval of the boards of the participating entities.

**BUDGET VIOLATIONS:**

Public Act #621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Department's actual and budgeted expenditures for the budgetary funds have been shown on a line item basis, consistent with the adopted budget.

The Department did not adopt a budget for its Restricted Police Fund.

For the year ended February 29, 2008 the Department incurred expenditures which were in excess of the amounts appropriated. These variances are as follows:

	FINAL BUDGET	ACTUAL	OVER EXPENDITURE
Officers' wages	\$ 90,685	\$ 93,443	\$ (2,758)
Clerical wages	15,319	15,437	(118)
Payroll taxes	8,248	8,324	(76)
Retirement	8,855	9,276	(421)
Gas and oil	7,350	7,411	(61)

**NOTE 3 – DEPOSITS:**

The Board's Treasurer is authorized by state law and a resolution from the Board to invest surplus funds as follows in accordance with Village of Parma's investment policy:

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a federally insured bank or credit union, but only if the bank or credit union meets all criteria as a depository of public funds contained in state law.

Board investment policies also address the following risks:

*Interest rate risk* – refers to the risk of a loss in the fair value of securities due to rising interest rates. The Department attempts to minimize this risk by carefully analyzing the length of times deposits are invested and cash flow needs to maximize earnings potential while keeping interest rate risk at an acceptable level. Currently, the excess funds of the Department are held in interest bearing savings account at a local credit union.

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3 – DEPOSITS: (continued)**

*Custodial Credit Risk* – refers to the risk the Department faces due to the failure of the issuer of a financial institution holding Department deposits. The Department does not limit the amount that can be deposited with a financial institution. During the fiscal year ended February 29, 2008 the Department's deposits were all covered by FDIC insurance.

The risk disclosures for the Department's deposits are as follows:

<u>DEPOSITS</u>	<u>FINANCIAL STATEMENT AMOUNT</u>	<u>BANK BALANCE</u>
Cash on hand	\$ 99	\$ -
Insured (FDIC)	12,295	12,309
Uninsured	-	-
	<u>\$ 12,394</u>	<u>\$ 12,309</u>

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 4 – CAPITAL ASSETS:**

Activity for capital assets of the Department is summarized below:

	Balance 02/28/07	Additions	Deletions	Balance 02/29/08
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
<b>Capital assets being depreciated:</b>				
Building and improvements	100,670	3,323	-	103,993
Equipment	18,152	-	-	18,152
Office equipment	4,476	-	-	4,476
Vehicles	46,098	-	-	46,098
Total assets being depreciated	169,396	3,323	-	172,719
<b>Accumulated depreciation:</b>				
Building and improvements	8,947	3,088	-	12,035
Equipment	12,266	1,714	-	13,980
Office equipment	4,028	448	-	4,476
Vehicles	31,217	4,252	-	35,469
Total accumulated depreciation	56,458	9,502	-	65,960
Net capital assets being depreciated	112,938	(6,179)	-	106,759
Net capital assets	\$ 113,938	\$ (6,179)	\$ -	\$ 107,759

**NOTE 5 – LONG TERM DEBT:**

The Department allows the carryover of unused sick and compensatory time by its full time officers. Upon termination or retirement, the sick time would be paid off at 50% of the officer's current pay rate; compensatory and vacation time would be paid at the full current pay rate. Because of the uncertainty surrounding the timing of such payouts, the liability has been classified as a long term liability.

A summary of the activity is as follows

	Balance 2/28/07	Additions	Payments	Balance 2/29/08
Accrued payroll	\$ 21,040	\$ -	\$ (317)	\$ 20,723

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 6 – FUND BALANCE/NET ASSETS:**

As discussed in Note 1A, the Department is a joint venture funded by three participating entities. The Department's fund balances/net assets are tracked by entity. A summary of these balances is presented below:

	Parma Township	Sandstone Charter Twsp.	Parma Village	Total
<b>Operating Fund:</b>				
There is no fund balance in this fund	\$ -	\$ -	\$ -	\$ -
<b>Restricted Police Fund:</b>				
Beginning fund balance	4,174	4,174	3,578	11,926
Current surplus (deficit)	(253)	(253)	(218)	(724)
Ending fund balance	3,921	3,921	3,360	11,202
 Total fund balance	 3,921	 3,921	 3,360	 11,202
<b>Reconciliation to Net Assets:</b>				
<b>Prepaid Expense/Accrued Payroll:</b>				
Beginning equity	(6,337)	(6,337)	(5,432)	(18,106)
Current change	526	526	451	1,503
Ending equity	(5,811)	(5,811)	(4,981)	(16,603)
<b>Capital Assets:</b>				
Beginning equity	37,979	37,980	37,979	113,938
Current change	(2,059)	(2,060)	(2,060)	(6,179)
Ending equity	35,920	35,920	35,919	107,759
Total net assets	\$ 34,030	\$ 34,030	\$ 34,298	\$ 102,358

The beginning net assets of the government-wide financial statements were restated to reflect the correct limitation on accrued sick and vacation pay. This restatement increased the beginning net assets by \$10,510.

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 7 - EMPLOYEES' RETIREMENT PLANS:**

The Department contributes to defined contribution retirement plans established by its two full-time police officers. These separate plans are in the name of the officers, and the Department's contributions are made under the terms of their employment agreements.

A defined contribution retirement plan provides benefits in return for service rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of these contributions. Contributions made by the employees and contributions by the Department both vest immediately. The employees contribute up to 5% of their base pay each week (pay period) to the plan. The Department's contribution equals 10% of base wages.

During the year, the Village's required and actual contributions amounted to \$9,276, which was 10.0% of its current-year covered payroll. The police officers also contributed \$2,598, which was 2.8% of the Village's current-year covered payroll. The Department's total payroll for the year was \$108,870; covered payroll totaled \$92,759.

The plans held no securities of the Village or other related parties during the year or as of the close of the fiscal year.

**NOTE 8 – RISK FINANCING:**

The Department is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the year.



## **REQUIRED SUPPLEMENTARY INFORMATION**

Budgetary Comparison Schedule - General Fund

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
THE YEAR ENDED FEBRUARY 29, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>				
<b>Intergovernmental:</b>				
Government contributions	\$ 188,511	\$ 188,511	\$ 185,035	\$ (3,476)
Federal grants	-	-	3,146	3,146
State grants	-	-	-	-
Total intergovernmental	188,511	188,511	188,181	(330)
Total revenues	188,511	188,511	188,181	(330)
<b>EXPENDITURES:</b>				
<b>Public Safety:</b>				
Officers wages	91,635	90,685	93,443	(2,758)
Clerical wages	15,319	15,319	15,437	(118)
Payroll taxes	8,248	8,248	8,324	(76)
Health insurance	31,000	31,000	30,880	120
Life insurance	1,000	1,000	849	151
Unemployment	1,800	1,800	1,620	180
Workers compensation insurance	2,000	2,000	1,864	136
Retirement	8,855	8,855	9,276	(421)
Office supplies	800	800	674	126
Uniforms	-	-	-	-
Operating supplies	500	500	434	66
Professional services	1,500	1,500	1,200	300
Radio maintenance	800	800	800	-
Auto maintenance	3,000	3,000	2,752	248
Gas and oil	6,400	7,350	7,411	(61)
Insurance	7,230	7,230	6,045	1,185
Phone, cellular, pager	2,988	2,988	2,867	121
Utilities	2,800	2,800	2,705	95

The accompanying notes are an integral part of this statement.

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Continued)  
THE YEAR ENDED FEBRUARY 29, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>EXPENDITURES:</b> (Continued)				
<b>Public Safety:</b> (Continued)				
Computer expense	\$ 1,456	\$ 1,456	\$ 924	\$ 532
Schooling	300	300	-	300
Property taxes	680	680	676	4
Miscellaneous	200	200	-	200
Total expenditures	188,511	188,511	188,181	330
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	-	-	-
<b>FUND BALANCE - Beginning</b>	-	-	-	-
<b>FUND BALANCE - Ending</b>	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of this statement.

**MARKOWSKI & COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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DOUGLAS E. ATKINS, C.P.A.  
SCOTT O. McLANE  
RANDALL D. BIDDIX, C.P.A.  
**RETIRED PARTNER:**  
K. LAVERNE MARKOWSKI, C.P.A. (1961-2006)

**MEMBERS:**  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

ESTATE PLANNING COUNCIL OF  
SOUTH CENTRAL MICHIGAN

Board of Directors  
Parma-Sandstone Inter-Municipal Police Department  
Jackson County, Michigan

**Communication of Significant Deficiencies and  
Material Weaknesses in Internal Control**

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the **Parma-Sandstone Inter-Municipal Police Department** as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Parma-Sandstone Inter-Municipal Police Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

**2008-01 - Reliance on External Auditors for Certain Control Functions:**

New Statements on Auditing Standards (SAS) issued by the American Institute of Certified Public Accountants have clarified management's responsibilities for establishing a system of internal control. It is now considered a significant deficiency in internal control when a governmental entity relies upon its external auditors as part of its internal control system. In Parma-Sandstone Inter-Municipal Police Department's case, it relies on the external auditors to prepare year end financial statements required by the State of Michigan.

This is considered a significant deficiency because the Parma-Sandstone Inter-Municipal Police Department does not have staff or an independent advisor qualified to ensure the external auditor's work complies with all required standards. To address this, the Parma-Sandstone Inter-Municipal Police Department could either improve the Village clerk or treasurer's knowledge base through continuing education, or hire a CPA independent of its audit firm to review the annual report. Management believes that from a cost-benefit basis, neither of these solutions makes sense. We concur with this decision.

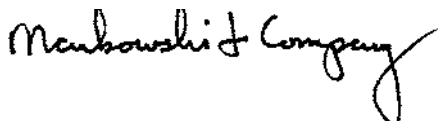
**2008 -02 - Segregation of Duties:**

The Parma-Sandstone Inter-Municipal Police Department relies on Parma Village's Treasurer and Clerk for its accounting functions. Because of this limited staff size, there are instances in which conflicting duties are performed by one individual. The Police Board needs to be aware of this situation, and maintain oversight of its financial records.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness: 2008-01.

We also noted other matters which should be considered by the Police Board. These are reported in our attached Memorandum on Comments and Recommendations.

This communication is intended solely for the information and use of management, the Police Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



**MARKOWSKI & COMPANY CPAs**

August 27, 2008

MEMORANDUM OF COMMENTS AND RECOMMENDATIONS  
FOR THE YEAR ENDED FEBRUARY 29, 2008

We are very happy to report that the Parma-Sandstone Inter-Municipal Police Department's accounting continues to show significant improvement. We found the records to be up to date, well organized, and very easy to work with. Please find the following items for your consideration:

**1. BUDGETS**

The Police Board does not currently adopt a budget for its Restricted Fund. State law requires that a budget be adopted for such funds. We would suggest that the Police Board adopt a budget for the Restricted Fund on an annual basis, using the prior year actual information as a guide. As noted in the audited financial statements, there were also areas in the operating budget in which actual expenditures exceeded budgeted amounts. Because the budget is adopted on a line-item basis by the Board, appropriate amendments should be made in the future to avoid such results.

**2. PENSION PLANS**

The employment contracts for the chief and sergeant call for the Police Department to contribute a percentage of gross pay to retirement plans. Current practice has the deposits going to accounts in the name of the employee.

This practice should be reviewed, as it is possible the Department could be exposed to payroll tax liabilities on amounts deposited to the plans (which the IRS could consider to be non-qualified plans). Future consideration should be given to establishing a Departmental retirement plan, or participating in a plan such as one offered by MERS (Michigan Employee Retirement System).

**FOLLOW UP ON PRIOR YEAR COMMENTS**

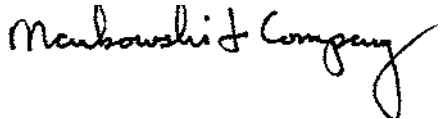
The Police Department has implemented the suggestion to separate its payroll reporting from that of Parma Village's effective March 1, 2008. Although this transition was not without some difficulties, we believe the Police Department will benefit from reduced costs as a result of this change.

## **CONCLUSION**

We would like to thank the Village clerk, Katie Cotey, Village treasurer, Mary France, Police Chief Jon Sutliff, Sgt. Kevin Szentmiklosi and Mary Koreen for their cooperation and patience during the audit process.

If anyone has questions regarding the items discussed in our memorandum, or if we can be of assistance with the implementation of any suggested changes, please feel free to contact us.

Sincerely,

A handwritten signature in cursive script that reads "Markowski & Company". The signature is written in black ink and is positioned above the printed name of the firm.

**MARKOWSKI & COMPANY CPAs**

August 27, 2008